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ABSTRACT

This instructor guide for a unit on recordkeeping in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 3 of learning--starting and managing one's own business. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: the value of maintaining accurate records, determining the records needed for a business, and a plan for managing records. (KC)

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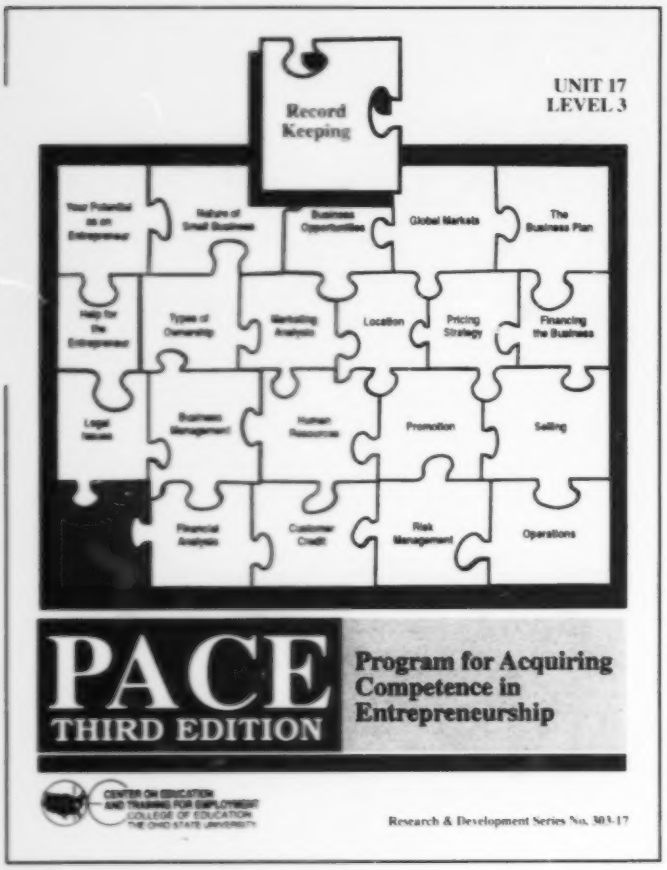

Objectives:

- Explain the value of maintaining accurate records.
- Determine all records needed for your business.
- Develop a plan for managing your records.

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INSTRUCTOR GUIDE

Unit 17

Record Keeping

Level 3

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outline provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

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Objectives	Teaching Suggestions
1. DETERMINE THE COSTS THAT WILL AFFECT PRICING	
What are the costs that affect pricing?	Ask the class what costs affect the manufacturer's price for shoes. Record their suggestions on the board. Then write a V in front of all variable costs and an F in front of all fixed costs. You may want to specifically discuss wages. If wages are paid as monthly salaries, they are a fixed cost. However, if wages are paid on a variable hourly basis, then they may be considered variable costs. Now, give the class a short case to work through. Suggest that you want to offer a one day workshop on pricing. Variable costs include supplies $4.00 and lunch $6.00. Fixed cost include room rental $50.00 and instructors fee $100.00. If you expect 15 people to attend, what is the **Floor Price**? ($20.00) If you plan on charging $30.00, what is the **Profit Margin**? ($10.00)
2. IDENTIFY OTHER FACTORS THAT WILL AFFECT YOUR PRICING STRATEGY	
How does market demand and supply affect pricing?	Start by asking students if the price of Big Macs decreased would the buy more. What about CDs? etc. List and discuss several items that reflect the typical demand/price relationship. Ask if they can think of items other than those listed in the text that would have relatively inelastic demand. Answer: utilities. You might note that if the price of electricity increase sufficiently, we may be more likely to turn off our lights. Now, ask the students if the cost to produce an item remains the same, if the price decreases would the manufacture produce more or less of the item? Illustrate this point using Graph 3. You may wish to change the numbers to give the students additional practice examining the profit maximization point. If you change the numbers, be sure the point of intersection represents the highest possible gross sales. Start by briefly reviewing the demand and supply curve separately. Then, do the calculations to demonstrate the profit maximization point.

Objectives	Teaching Suggestions
What comprises a marketing strategy?	Ask students what the Four Ps of marketing are. Give specific examples for each of the Four Ps. For example, promotion includes advertising, sales, public relations and sales promotion. Emphasize that pricing is part of the marketing strategy. It is a way of communicating to the consumer the product image. Would a $15,000 Rolls Royce still be a Rolls Royce?
How does the product life cycle affect the marketing strategy and pricing?	Track the product life cycle of hand held calculators. Start in the early 1970s when Texas Instrument twelve function calculators were first mass marketed for $450.00. Follow through with a discussion of their market growth and maturity. Include a discussion of the increase in competition and a decrease in price to the current low of $5.00 to $10.00. Are hand held calculator now in decline? Talk about the impact of PCs on the market.
3. ILLUSTRATE HOW MARKUP STRATEGIES AFFECT YOUR PRICING	
How do different markup strategies affect your pricing?	Inquire if any of your students have been involved in retail pricing. Find out what percent of markup their store typically used. Give several examples. For example, since your store used a 100 percent markup based on cost, then a coat which cost them $100 would be sold for $200. How much would the same coat be sold for if the retail markup was 50% based on cost? ($150).
4. DESIGN PRICING INCENTIVES FOR YOUR BUSINESS	
What are pricing incentives?	Ask why a retailer would reduce the price of merchandise. List the answers on the board. Indicate that the same reduction in price could produce different results.
What are the different types of pricing incentives?	Ask the students to imagine that they are a toothpaste manufacturer. What are the different types of price incentives they might offer the retailer? Assuming that this toothpaste manufacturer predetermines retail price, what are some of the tactical discounts they might offer the consumer?

Objectives	Teaching Suggestions
5. DETERMINE APPROPRIATE PRICING STRATEGIES FOR A BUSINESS How do you determine appropriate pricing strategies for a business?	Ask students to imagine that they are the manufacturer of a self-vacuuming carpet about to be mass marketed. This product is a loose weave carpet with a central vacuum system underneath it. Go through the process of determining the appropriate pricing strategy.

MODEL ASSESSMENT RESPONSES

1. The total cost of a product is the sum of the fixed and variable costs. Variable costs are the costs that change with the quantity of goods and services produced. Fixed costs are the costs which are constant at all levels of production. The floor price of a product is the sum of the total fixed cost divided by the number of units produced and the per unit variable costs.

2. The price of a product is also affected by market demand and supply, and marketing strategy, and competition as described in the product life cycle.

3. Markup is a percent added to variable costs to cover fixed cost and profit for the business. Companies may use either a standard markup of a variable markup system. The variable markup system is common for manufacturers or retailers who stock a wide variety of products.

4. The most common types of pricing incentives are:

   a. **Tactical Discounts** which are temporary consumer price reductions.

   b. **Quantity Discounts** which are granted to buyers who purchase in large quantities.

   c. **Cumulative Discounts** which encourage consumers to continue to buy from one supplier over an extended period of time.

   d. **Trade Discounts** which are given to distributors as a reward for either stocking or pushing a product.

   e. **Cash Discounts** which are offered to distributors as incentives for paying for their products as early as possible.

Pricing reductions may be interpreted by consumers in a variety of ways. For example, consumers may interpret a price reduction as an attempt to attract new customers, take customers away from competitors, increase usage rates among existing customers, or a means of discouraging existing customers from switching to competitors.

5. The procedure for selecting an appropriate pricing strategy is as follows:

   a. Determine buyer needs, wants, and desires.

   b. Determine market position.

   c. Evaluate your competition.

   d. Conduct a complete analysis of costs.

   e. Prepare product or service line financial statements.

   f. Assess your existing and future operations.

   g. Communicate to employees, distributors, and retailers.

   h. Communicate to buyers and users.

   i. Monitor results.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
Center on Education and Training for Employment, 1900 Kenny Road, Columbus, Ohio 43210-1090
(614) 292-4353, (800) 848-4815.

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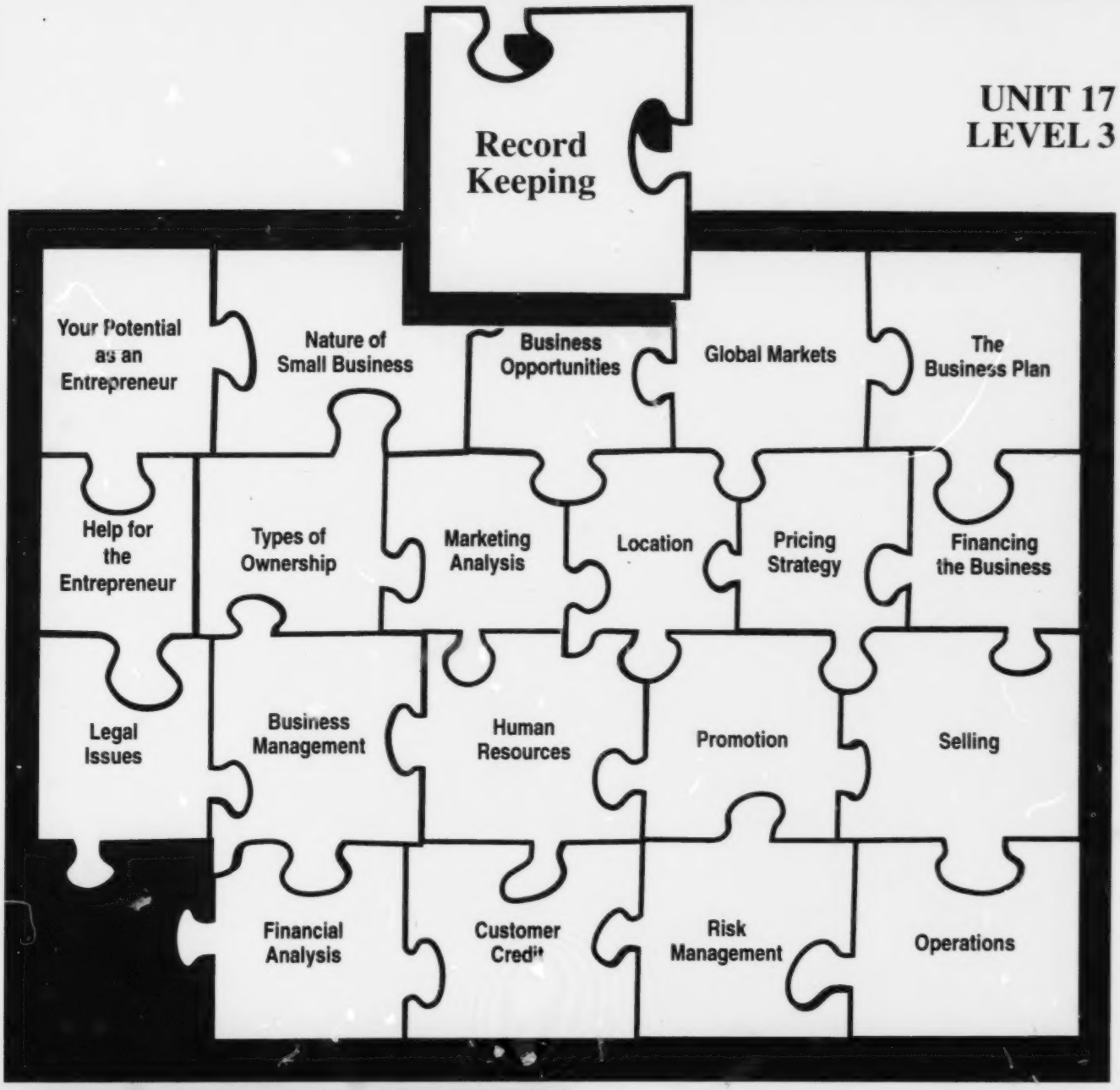
UNIT 17
LEVEL 3



PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 303-17

RECORD KEEPING

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met in Level 1 and Level 2:

   Level 1

   - Discuss the reasons for keeping business records.
   - Identify the elements of effective record keeping.
   - Describe different types of records needed by small business.
   - Identify sources of record-keeping assistance.

   Level 2

   - Explain the importance of effective record keeping.
   - Identify records necessary for effective inventory control.
   - Explain records used for financial management.
   - Identify records used for effective human resource management.
   - Describe facility/equipment maintenance records.
   - Discuss the value of using external record keeping assistance.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide.*

   Budget systems
   Double-entry bookkeeping
   Electrical
   Just-In-Time (JIT)
   Perpetual
   Petty cash
   Physical inventory

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RECORD KEEPING

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- explain the value of maintaining accurate records,
- determine all records needed for your business, and
- develop a plan for managing your records.

WHAT IS THIS UNIT ABOUT?

This unit is designed to assist you—the small business owner—to determine all the records needed for your business and to develop a plan to effectively manage your business using these records.

You will learn why you should keep records, who can maintain them, and the sources of financial data. Then you will examine the concept of double-entry bookkeeping. Next, you will explore the following types of records: (1) journals or books of original entry, (2) ledgers or books of various accounts, (3) merchandise inventory, and (4) budget systems.

In this unit, you will also have an opportunity to learn more about applying computers to small business problems. The advantages and disadvantages of computers will be identified for you. In addition, you will learn more about the kinds of savings and improvements that can result from computerizing the record-keeping function.

WHY SHOULD A NEW BUSINESS OWNER KEEP RECORDS?

As you start your business venture, you might wonder, "Why go to all the trouble and fuss of keeping business records if, during the first year or so of operation, my business will be small?" Actually, there are many reasons for having a good record keeping system. As a small business owner, you may be most interested in the following reasons for record keeping:

- Awareness of profitability
- Awareness of sales growth

- Return on investment to you, the owner
- Calculation of profit
- Federal tax and reporting requirements
- State tax and reporting requirements
- Local tax and reporting requirements
- Information for your creditors (people or firms you might owe money)
- Information for the investors in your business (stockholders or partners)
- Control of investment in inventory
- Control of investments in accounts receivable
- Control of investments in building and equipment
- Cash forecasting (avoiding "cash-outs")

WHAT ARE SOURCE DOCUMENTS?

Complete bookkeeping records follow the same pattern for all businesses. Every business transaction is recorded on some kind of source document. The source documents are used for recording business transactions, as they occur, in either a series of *journals* or in a single combination journal. This is known as a book of original entry. Journals are considered the first level of business records.

Journal entries are sorted and summarized in the book of accounts or general ledger. As a result, the *general ledger* accumulates the sales and expense items by categories. It becomes the second level of business records. Basically, the general ledger is a record of the balance of the assets and liabilities, and the net worth of the business.

These records are used to construct the three critical summary financial statements used by all business:

- The Income Statement—to determine your profit performance
- The Balance Sheet—to control the financial condition of the assets and liabilities of the business.
- The Cash Flow Statement—to prevent cash shortages and consequent defaults.

Problems arise when business owners do not understand accounting and fail to keep proper records. The owners do not know if the business is operating at a profit or loss until they compute the "bottom line" at tax time, or at the end of the year when an accountant is hired to analyze the operation. The business owner needs to know where the business is going on a day-to-day basis. Yearly financial reports are important and useful, but timely knowledge on operating conditions is even more important if the small business owner is to make effective business decisions.

Basic to the sound financial management of your business is an accounting system that is easy to maintain and furnishes all the necessary information. Many self-checking devices exist in a well designed system. For example, the accuracy of accounts in the

ledger may be proven by taking a trial balance that is prepared as a part of the worksheet. Financial statements are prepared periodically from the worksheet to show what the business is worth and how well the business is doing. Good record keeping is not just a necessity but it is also a tool. How well you use that tool will determine to a large degree the success of your business.

WHO SHOULD MAINTAIN THE BUSINESS RECORDS?

In the initial stages of the business, you may wish to take charge of the records. An accountant can help you set the books up, but the experience of "doing the books" will give you a feel for the importance of records and show you how they can help you run your business. It will also help you determine what parts of the system can be delegated to someone else. In addition, the experience of doing the books will help you teach someone else how to do the job.

WHY HAVE AN ACCOUNTANT?

You may find that you have too many demands on your time and that there are more profitable things for you to do thar keep the records. Remember, there are two critical aspects of a record keeping system: keeping the records and using them to make decisions. The first can easily be delegated. You may find that you are not spending enough time on the "using" aspect. If this is the case, you may wish to train an employee to take over and maintain all or parts of the record keeping system. Other alternatives include hiring a person who keeps books for a number of small businesses; this is generally known as a freelance bookkeeper. You might also employ an accountant or engage the services of a public accounting firm. It may cost more to engage a reputable accountant or a public accounting firm. However, an accountant can save you more money than you may realize.

The selection of an accountant rests with the owner. Your banker may be able to recommend an accountant, or you may prefer a deal with a large accounting firm. Many small business owners have found a good accountant through recommendations from their friends and other owners.

WHAT SHOULD YOU DISCUSS WITH YOUR ACCOUNTANT?

The accountant will become more valuable to the firm upon becoming familiar with the technical aspects of your business. Therefore, you will need to be able to discuss your financial concerns with your accountant. Some of the services that the accountant can provide include the following:

- Preparing tax returns and planning tax programs
- Reviewing and developing a firm's accounting needs
- Assisting in the selection and training of a bookkeeping staff
- Advising on records and systems management

- Preparing financial statements (including the trial balance); also auditing records to safeguard a firm's assets
- Assisting in review and study of financial statements
- Helping determine a firm's cash flow and capital requirements
- Assisting in establishing budgets and expense controls
- Helping set up sound credit policies
- Providing purchasing and inventory controls
- Working with a firm's attorney and other professional consultants to provide sound financial management, draft contracts and leases, and determine adequate insurance coverage
- Acting as a sounding board for the entrepreneur

Source: *Managing for Profits*, p. 128

The business owner should try to meet with the accountant at least once a month. Such meetings should be held when financial statements for the period have been prepared and at a time when there will be no interruptions. Performance in the previous month is compared with that of a year ago, with the preceding month, and with industry standards. Any major deviations may be discussed. Next, plans for the current month may be discussed along with problems and future plans. This particular meeting can be very helpful from the standpoint of understanding the financial aspects of the business operation. For additional information regarding the financial aspects of operating the business, see PACE Unit 18, Financial Analysis. That unit will help you to utilize your records to plan for the future.

Regardless of who keeps the business records and how they are maintained, a small business record keeping system should provide you with the following information:

Daily

- Cash on hand
- Bank balance (keep personal and business funds separate)
- Daily summary of sales and cash receipts
- All errors in recording collections on accounts are corrected
- A record of all monies paid out by cash or check is maintained

Weekly

- Accounts receivable (take action on slow payers)
- Accounts payable (take advantage of discounts)
- Payroll records that include name and address of employee, social security number, number of exemptions, date ending the pay period, hours worked, rate of pay, total wages, deductions, net pay, check number
- Taxes and reports to state and federal government (sales, withholding, social security, etc.)

Monthly

- All journal entries are classified according to like elements (these should be generally accepted and standardized for both income and expense) and posted to the general ledger.
- A profit-and-loss statement for the month is available within a reasonable time, usually 10 to 15 days following the close of the month. This shows the income of the business for the month, the expense incurred in obtaining the income, and the profit or loss resulting. From this, take action to eliminate loss (adjust markup, reduce overhead expense, pilferage, incorrect tax reporting, incorrect buying procedures, failure to take advantage of cash discounts).
- A balance sheet accompanies the profit-and-loss statement. This shows assets (what the business has), liabilities (what the business owes), and the investment of the owner.
- The bank statement is reconciled, (that is, the owner's books are in agreement with the bank's record of the cash balance).
- The petty cash account is in balance. (The actual cash in the petty cash box plus the total of the paid-out slips that have not been charged to expense should total the amount set aside as petty cash).
- All federal tax deposits, withheld income, and FICA taxes (Form 501 and state taxes are made.
- An aging schedule for accounts receivable, showing transactions by date of sale. This schedule indicates all bad and slow accounts (i.e., 30,60, 90 days past due)
- Raw material and work in process inventory is reduced to the lowest level consistent with customer satisfaction. For retail, What moves slowly? Reduce. What moves fast? Increase.
- The monthly budget is compared to actual expenditures and appropriate controls or revisions are instituted.

Source: *Keeping Records in Small Business.* Management Aids Number 1.017.

As you study the information in this unit as well as that in Unit 18 titled, "Financial Analysis," you will be able to obtain this information and utilize it in your business operation.

The financial records of a business start with information that reflects a transaction. A transaction can be a sale of goods or purchase of your firm's primary service. The records may consist of the following:

- Adding machine tape
- Cash register tape
- Sales book invoices or receipts
- Canceled checks and deposit slips from your bank's statement
- Any other piece of paper that has financial information recorded on it

Your records can take many forms. Regardless of the devices you use, time between the

transaction and the recording of the transaction is an important element. If a cash register tape or a duplicate sales receipt is used, these acts are performed simultaneously. Cash registers will automatically provide totals of different types of transactions. Sales book forms must be summarized by running adding machine totals of the slips. Transactions should be recorded simultaneously or shortly thereafter to avoid misplacing any documents or forgetting to record the sales or purchases. With an electronic cash register you may be able to incorporate these "point-of-sale" transactions into the appropriate journals.

WHAT IS DOUBLE-ENTRY BOOKKEEPING?

Double-entry bookkeeping is a system based on basic accounting equation that specifies that a companies assets will equal its liabilities plus its capital. Therefore, any transaction will always effect two accounts in opposite directions to maintain the equations balance. The rule is that for every debit there must be a credit. It performs the following functions:

- Records every transaction twice
- Provides for an accuracy check
- Leads to a process of recapping the entries whereby the total of debits must equal the total of credits

Entries are recorded twice. The recording of one transaction requires the debiting and crediting of two accounts. Table 1 is a decision table or a matrix that illustrates relationships between bookkeeping entries (debits and credits) and the accounts of your business.

The column on the left-hand side of the table shows some typical accounts your business would have in a financial statement. Across the top of the table are the columns for the two entries that could be made to an account (debit or credit) and what the normal balance of the account is. Assume your firm has had a cash sale. This transaction will increase cash and income. The increase for cash is a debit entry (+) and the increase for sales, which is a source of income, is a credit or (-) entry. The journal entry then should reflect that a debit is made to the cash account and a credit entry is made to the sales account for merchandise sold.

In summary, every transaction must consist of debits and credits that offset or balance each other. Assets and expenses are increased by debits and decreased by credits. Liabilities and income are increased by credits and decreased by debits.

Record-keeping devices should be constructed so that they are easy to use, reflect accurately what took place, and contain enough information for further summary and utilization. Records can be categorized into the following areas:

- Journals or books of original entry
- Ledgers of books of various accounts
- Merchandise inventory
- Budget systems

Table 1
Decision Table of Debit and Credit Entries

Type of Account	Debit Entry	Credit Entry	Normal Balance in Financial Statement
Asset Examples: Cash Accounts receivable Inventory Equipment	+ (Increase)	- (Decrease)	Debit
Liabilities Example: Accounts payable	- (Decrease)	+ (Increase)	Credit
Capital Example: Net worth	- (Decrease)	+ (Increase)	Credit
Income Example: Sales	- (Decrease)	+ (Increase)	Credit
Expense Example: Salaries	+ (Increase)	- (Decrease)	Debit

- Nonfinancial records (personnel, quality control, insurance, etc.)

Each category will be discussed here.

WHAT JOURNALS ARE MOST COMMONLY USED BY SMALL BUSINESSES?

Journals or Books of Original Entry. The sales journals, accounts receivable records, accounts payable records, and payroll records are record-keeping devices that provide significant information for financial control of the firm. These journals are most often used by small businesses.

Sales Journals. The foundation of your record-keeping system is the sales journal (or a similar type of journal). The most commonly used are cash register tapes or salesbook receipts. These are essential, original journal entry records. The cash register not only stores daily operating cash, but also records each transaction in the form of a printed transaction that will appear on the tape. It may contain the date of the

transaction, the amount, symbols to denote type of merchandise sold, and possibly a sequential number after each entry. The salesbook receipts or cartons contain basically the same information as a cash register tape, but can also provide a brief description of the transaction. Since this journal is either handwritten or typed, it is more flexible than a cash register tape. Usually, a business that has a large volume of transactions will utilize a cash register, whereas, a business with fewer transactions will use salesbook records.

WHAT ARE ACCOUNTS PAYABLE AND RECEIVABLE SYSTEMS?

If your business makes sales on a credit basis, you will be carrying accounts receivable. Accounts receivable is a ledger or a book of account for your business. It is essential that you maintain a record for each customer. Some small firms use a 5" X 8" card for each customer and record each credit sale and payment. Many firms use a lined ledger sheet (similar to Figure 1) which is then maintained in a loose-leaf notebook or ledger.

In a double-entry bookkeeping system, an increase in accounts receivable would be entered as a credit sale as:

- Debit - Accounts Receivable
- Credit - Sales

The originating transaction would be the sales slip. Regardless of the type of bookkeeping system used, the total figure for individual accounts due to the business should agree with the total amount of accounts receivable shown on the balance entry.

The example provided in Figure 1 illustrates a customer paying $80 toward her outstanding bill. This results in a decrease in accounts receivable which in entered as follows:

- Credit - Accounts Receivable
- Debit - Cash

Note that the $80 payment also shows up in Figure 3 and Table 2 discussed in the next several pages.

Another essential record that must be maintained is an accounts payable record-keeping system. Accounts payable are what your firm owes others for items such as purchases of inventory, services such as repairs, or taxes due for payroll. When you receive the actual shipment of inventory, keep any shipping documents that accompany the shipment. These need to be compared with the invoice to verify actual receipt of the goods. You may incur liabilities and regardless of how you incur them, it is necessary to maintain an up-to-date accounts payable system. Such a system is shown in Figure 2, which is both accurate and easily understood. Like the accounts receivable records, it is very important to be able to know at any given time the amount owed a creditor.

A typical entry for an accounts payable transaction in a double-entry bookkeeping system would be purchasing inventory from suppliers. It would be recorded as follows:

- Debit - Inventory

Name:	Clair Ann Briggs 1482 C Street Ontario, OH 43220		Phone: (614) 455-2748	
Date	**Sales Slip Number**	**Charge (Debit)**	**Payment (Credit)**	**Balance**
12/19/9__	1003		$80.00	-0-

Figure 1. Sample ledger entry

- Credit - Accounts payable

The source document that originates the transaction would be an invoice from the supplier. After the transaction has been entered as a journal entry, it should then be entered in an accounts payable ledger similar to Figure 2. The example provided in Figure 2 represents a payment of $185 toward your bill with this supplier. It would be recorded as follows:

- Debit - Accounts Payable
- Credit - Cash

To summarize, an accounts payable ledger sheet and an accounts receivable record are almost identical. They differ in that a charge to an account receivable is a debit, whereas a charge to an account payable is a credit. Also, a payment on an account payable is a debit.

WHAT IS NEEDED FOR PAYROLL RECORDS?

Another essential record that must be maintained is a *payroll register*. An accountant's worksheet, lined to form columns, is easy to use and inexpensive for payroll records. Loose-leaf worksheets may be purchased in any bookstore or office supply store. Payroll information might be collected via a time card, sign-in sheet, or some other type of record that itemizes hours per day worked by an employee. Even if you are the sole employee, you must still maintain this time and attendance certification record. A payroll sheet should include the following information:

- Employee's name
- Total hours worked
  - -Regular
  - -Overtime
- Gross pay
- Deductions
  - -FICA (Social Security)
  - -Federal withholding
  - -State and/or local withholding (if applicable)
  - -Miscellaneous
- Net pay amount
- Check number

Name:	R.U.S.H. 1098 Morris Road Columbus, OH 43221		Phone: (614) 555-1522	
Date	**Invoice Number**	**Charge (Credit)**	**Payment (Debit)**	**Balance**
12/31/9__	307		$185	-0-

Figure 2. Sample accounts payable record

WHY SHOULD YOU CONTROL CASHFLOW?

In addition to the journals of original entry, every firm must develop record-keeping devices for controlling the cash income and outgo. Controlling cashflow is an absolute necessity for your business. Your firm's ability to meet its monthly expenses will depend upon your ability to control or monitor cashflow. You will also be able to reconcile bank statements with your records.

HOW DO YOU CONTROL CASH FLOW?

To supervise cashflow effectively, it is important to maintain the following records:

- Daily sales and cash summary
- Journal of sales and receipts
- Cash disbursement journal

The daily sales and cash summary performs the following functions:

- Reconciles what you actually have in cash and what your sales receipts say you should have in cash
- Summarizes sales and amounts received on accounts that will be used in completing other journals

HOW IMPORTANT IS THE DAILY SALES AND CASH SUMMARY?

The first section of Figure 3 pertains to total cash receipts. It includes monies received on accounts receivable or accounts due to the firm (line 2). This total will again appear in the journal of sales and receipts, and will serve as a reference when posting to the general accounts. In Figure 3, a "miscellaneous" category (line 3) is included, which reflects the receipt of any cash for purposes other than sales. Any amount in this category will also appear in the journal of sales and receipts. Looking ahead to the opportunities to computerize your business, note how many separate manual operations are required to record the results of each transaction.

DATE _____

	Receipts	
1.	Cash sales	$ 435.00
2.	Accounts receivable	$ 80.00
3.	Miscellaneous	$ 10.00
4.	TOTAL CASH RECEIPTS	$ 525.00
	Cash Count	
5.	Cash in Register	
	Checks	$ 65.00
	Currency	$ 695.00
	Change	$ 25.00
6.	Cash and checks in vault	$ 785.00
7.	Petty cash slips	$ 35.00
8.	TOTAL CASH	$ 825.00
9.	Less bank deposit	$ 500.00
10.	TOTAL CASH	$ 325.00
	Total Sales	
11.	Cash sales - Line 1	$ 435.00
12.	Charge Sales	$ 75.00
13.	TOTAL SALES	$ 510.00

By: _____

Figure 3. Sample daily sales and cash summary

The second section of Figure 3 is an itemization of the actual cash count, including any checks. After the total cash count (line 8) is arrived at, any bank deposits (line 9) are subtracted, leaving an amount of cash on your premises for the next day's business, the "ending cash" (line 10).

The third section, cash reconciliation, compares what the firm should have (line 15), with the actual count at the close of the day's business (line 8). The total cash receipts (line 4) added to the ending cash from the previous day (line 10) enables you to calculate what your total cash should be. Any differences are adjusted on lines 13 and 14 to arrive at a reconciliatory figure.

The last section, total sales, breaks out the firm's sales by two categories—those paid for in cash or by check (line 1), and those charged by customers. Your business carries the amounts of these sales as accounts receivable (line 12). This item (charge sales)

will appear again in the journal of sales and receipts.

The form shown in Figure 3 requires the signature of the person who prepared it. The owner may not be the one who keeps the records and prepares financial statements. Questions may arise; therefore, the bookkeeper/statement preparer should be easily identified.

The importance of this worksheet cannot be overestimated; it is a tool that you should use in controlling the finances of your business. In addition, you may want to establish or indicate some other types of receipts for your particular business.

WHAT IS A JOURNAL OF SALES AND RECEIPTS?

One report that serves as a control over your cashflow and also summarizes daily activity is the journal of sales and receipts. To complete this form, the following should be done:

1. Each day you should enter both debit and credit items from the daily sales and cash summary and make sure total debits for each day equal total credits for each day.

2. Each month you should summarize these entries and make entries to the general ledger or book of accounts.

This schedule also serves the function of a trial balance. The trial balance sums up the daily debits and credits and serves as a posting medium for the general ledger or book of accounts.

Table 2 shows the debits and credits on the same page; however, it would be more practical to set up separate columnar sheets for the debits and credits. The entries are referenced with line numbers from the daily sales and cash summary to show where the entries came from.

The entries and their corresponding general ledger accounts are shown in Table 2.

WHAT IS A CASH DISBURSEMENT JOURNAL?

An essential component of any financial control and record-keeping system is maintaining an accurate and up-to-date cash disbursement journal. Table 3 is a sample of a cash disbursement journal. It includes the following necessary information:

- Date
- Payee (to whom the check is issued)
- Check number
- Amount of check
- Suggested group of general ledger accounts that will be affected by the disbursement

Since it is imperative to have receipts for all disbursements, the use of a checking account is recommended. The record of a canceled check is also a reliable document for verification in income tax record keeping.

Table 2
Daily Entries and General Ledger Accounts

Type of Entry	Columns Heading	General Ledger Account
Debit	Charge Sales	Accounts Receivable
Debit	Bank Deposit	Cash
Debit	Today's Ending Cash	Cash
Debit	Cash Short	Cash
Credit	Collections on Account	Sales
Credit	Yesterday's Ending Cash	Accounts Receivable
Credit	Miscellaneous	Cash
Credit		Miscellaneous Income

Table 3
Sample Page from Cash Disbursement Journal

Date	Payee	Check No.	Amt. Check (CR)	Payroll Inc. Tax (CR)	Deduct Soc. Sec. (CR)	Genl. Desc. (CR)	Ledger Amt.	Inventory (DB)	Salaries (DB)	Genl. Ledger Desc. (CDB)	
12/19/92	F.T. Help (2 wk. sal.)	101	$257	25	18				$300		
12/19/82	ABC Supply Co.	102	$325					$325			
12/26/82	Mr. Landlord	103	$75							Rent	$75
12/30/82	I.R.S.	104	$18							Payroll tax	$18
12/31/92	R.U. Sales	105	$185							Accts. pay	$185

Just as the journal of sales and receipts was summarized monthly to serve as a posting reference to a general ledger, the cash disbursement journal is similarly summarized monthly and used as a posting reference to the general ledger.

In the cash disbursement journal shown in Table 3, the four columns on the right-hand side of the form represent debit entries to the general ledger, whereas the four columns following the check number denote credit entries to the general ledger. To establish

this journal inexpensively, obtain or construct a supply of columnar worksheets similar to the payroll worksheet previously mentioned.

WHAT IS THE PETTY CASH FUND?

In most businesses the owner will have occasional small disbursements for incidental items. To avoid having to write many checks for small amounts, it is wise to have a fixed amount of cash—known as a petty cash fund—from which to make small payments.

Each time a payment is made from the fund, a petty cash slip similar to the one shown in Figure 4 should be made out. If an invoice or receipt is available, it should be attached to the petty cash slip for filing. The total of the unspent petty cash and the petty cash slips should equal the fixed amount of the petty cash fund. When the petty cash fund is spent, a check is made out to "Petty Cash." Petty cash slips should be canceled or marked in such a way as to prevent their reuse. The slips should be grouped according to the accounts to be charged. Charges to each account should be totaled and entered in the cash disbursement journal.

HOW IS THE BANK RECONCILIATION STATEMENT USED?

A control device for the cash disbursement journal is the bank reconciliation form, as shown in Figure 5. It is used to adjust the bank balance for any deposits and checks that have not been processed by the bank. The adjusted bank balance is compared with the balance that your check stubs show plus or minus any corrections or service charges.

No. _____ Date: _____

RECEIVED OF PETTY CASH

Amount: _____

For: _____

Charge to: _____

Approved by: _____

Received by: _____

Figure 4. Petty cash slip

Date: December 31, 19____

1.	Balance per bank statement		$325.00
2.	Add deposits not credited		
	Date	Amount	
		$500.00	
			$500.00
			$825.00
3.	Deduct outstanding checks		
	No. Date	Amount	
	105 12/31	$185.00	
	106 12/30	$ 18.00	$203.00
4.	Adjusted bank balance		$622.00
5.	Balance per checkbook		$623.00
6.	Add corrections		
7.	Deduct bank service charge		$ 1.00
8.	Adjusted checkbook balance		$622.00

Figure 5. Sample bank reconciliation form

Failing to keep track of the amount in a checking account can result in having a check returned for insufficient funds and consequent overdraft charges. This cannot only be embarrassing, it can also be expensive.

For these reasons, it is important that this reconciliation be performed immediately upon receipt of the bank statement. The longer any errors exist, either on your records or on the bank's records, the more difficult it will be to locate any discrepancies between the bank balance and your balance.

WHAT IS THE GENERAL LEDGER?

The general ledger, or book of accounts, is used to state accurately the financial picture of the business as of any given date. Generally, it uses information taken from the journals or books of original entry. The general ledger records the balance of the assets and liabilities, and net worth of the business, in addition to accumulating the sales and expense items by categories. At the close of the business year, the sales and expense items are transferred to the profit and loss account. This profit-and-loss account is then transferred to the capital account. Balances of all other categories of accounts in the general ledger—assets, liabilities, and net

worth balances—appear on the balance sheet.

An account number is assigned to each item in the ledger. These numbers help the bookkeeper establish the proper sequence of accounts and also facilitates the posting of transactions to these accounts from the journals of original entry.

The number of accounts that should be established depends upon the particular activity of the business, but there are certain basic accounts that all businesses use in stating the financial records of their particular activity. The lists of accounts in the following sections are not complete; however, they are the ones most commonly used. Expanding the number and defining some additional categories is appropriate if the situation dictates. For example, your firm may have one particular asset items that may not be listed here, such as organization expenses, goodwill, and, if you are a manufacturing concern, materials and supplies.

WHAT ABOUT ASSETS AND THE LEDGER?

The first category of a general ledger account lists assets. Assets are considered items that a firm owns. Some typical accounts are these:

- Account No. 101 - Cash in bank
- Account No. 102 - Cash in vault
- Account No. 201 - Accounts receivable
- Account No. 210 - Prepaid expenses
- Account No. 220 - Inventory
- Account No. 280 - Building
- Account No. 290 - Equipment

WHAT ABOUT LIABILITIES AND THE LEDGER?

The second category of a general ledger account is the liabilities of the business. These items consist of debts:

- Account No. 321 - FICA tax payable
- Account No. 322 - Federal Withholding tax payable
- Account No. 323 - State withholding tax payable
- Account No. 390 - Mortgage payable (long-term)
- Account No. 395 - Notes payable (long-term)

Debts payable within one year and those that are long term are differentiated in the following list.

WHAT ABOUT NET WORTH?

The third category of accounts is included in the "net worth" section of the general ledger. It consists of the record of balance of the owner's investment in the business. This group of accounts also reflects the accumulation of profit-and-loss balances from the income and expense statement. A

typical list of these accounts would be as follows:

- Account No. 400 - Proprietorship account
- Account No. 401 - Proprietorship withdrawals
- Account No. 410 - Retained earnings

Usually the first account, proprietorship account, reflects the original investment plus any additional investments that the owner makes in the business. The balance of this account would be a credit balance, as it reflects amounts invested by the owner. The second account is the withdrawal account. This account will show a debit balance, as it represents the amount of withdrawals the owner has made from the business. This does not represent the owner's salary, but rather a withdrawal of previously made investments in the business. The last item in this category, retained earnings, represents the accumulation of earnings over the years. It is hoped, this balance will be a credit balance; however, if a business is operating at a loss, this balance will appear as a debit.

WHAT ABOUT INCOME AND THE LEDGER?

The fourth category of accounts in the general ledger consists of those accounts that reflect or show the income of the business. These accounts show a credit balance, and the entries to these accounts originate from the sales journals that the business maintains. This group of accounts is closed out at the end of the business year, and the amounts are transferred to the profit and loss statement. Some typical accounts would be as follows:

- Account No. 500 - Retail sales
- Account No. 510 - Service income
- Account No. 590 - Miscellaneous income

WHAT ABOUT EXPENSES AND THE LEDGER?

The fifth category of accounts of the business listed in the general ledger are the expenses. Expense accounts represent the largest category of accounts. It is advisable to establish accounts that represent frequent or substantial expenditures. However, try to avoid establishing separate expense accounts for items that are insignificant or infrequently used. Some typical Expense accounts are listed below:

- Account No. 600 - Salaries and wages
- Account No. 601 - Payroll taxes
- Account No. 602 - Contract labor (part-time help from firms that supply services)
- Account No. 610 - Utilities
- Account No. 611 - Telephone
- Account No. 612 - Rent
- Account No. 620 - Office supplies
- Account No. 621 - Postage
- Account No. 630 - Insurance
- Account No. 631 - Interest on debt
- Account No. 640 - Depreciation

- Account No. 650 - Travel
- Account No. 651 - Entertainment
- Account No. 660 - Advertising
- Account No. 690 - Miscellaneous

All expense items should be paid by bank checks. You should write the number of the general ledger account of the particular expense item on the check stub at the time the check is written.

WHAT IS INVENTORY?

Inventory is a large item for manufacturing, wholesaling, and retailing businesses. For accounting purposes, there are three kinds of inventories: raw materials, work in progress, and finished goods. Take a closer look at each of these.

Raw materials refers to items that have been acquired but are not a part of work in progress. For example, a craft store that produces its own handbags and belts would stock leather as raw materials inventory.

Work in progress refers to costs incurred in working on goods that have been started but have not yet been completed (as of the date of the balance sheet describing the current state of the business). The work-in-progress inventory usually includes three cost elements: raw materials currently being worked on, direct labor, and factory overhead.

Finished goods refers to the items most often carried by retail store inventories. It represents the total costs incurred to produce sales units that have not yet been sold.

These inventories—raw materials, work in progress, and finished goods—all exist for the same ultimate purpose. That is, sale to customers. However, each of the inventories is in a different stage of readiness for sale. Inventory costs usually are broken down into invoice price, plus transportation charges from the seller to the buyer. Accurate measures of inventory are important because they are used to reflect your net earnings for a given period. In addition, accurate inventories are crucial to the daily planning, control, and cost efficiency of your business.

HOW MUCH INVENTORY DO YOU NEED?

What is the ideal amount of inventory that a business should carry at any one time? The answer is basically simple—enough inventory should be maintained so that sales will never be lost, but not so much that it ties up capital or becomes outdated. It nay sound easy, but in practice it becomes very difficult to achieve an ideal inventory level.

To maintain the proper inventory level, the following areas should be considered:

Retail

- The number of brands of a particular item
- The quantity on hand (may be either too much or not enough)
- "Stock" items as fads or fashions

Manufacturing

- The production rate for each specific product
- The frequency of supplier deliveries for your raw materials
- The "smoothness" of your production process

The number of brands of a particular item will depend, of course, upon your customers, demands. To satisfy customer needs, you will need to identify customer buying patterns in order to define what they want. Keeping the proper quantity on hand and still justifying the investment is a dilemma that the entrepreneur continually faces. One temptation is to take advantage of quantity discounts to obtain the lowest per unit cost. If you do this, you may have to buy an excess quantity of inventory and tie up your capital. Knowing whether or not a stock item is a fad that could quickly lose its appeal will also affect how much inventory you purchase.

Calculating stock turnover rates can also help the business owner determine how much inventory should be kept on hand. The turnover rate can be computed by using this formula:

Cost of Goods Sold Average Inventory = Stock Turnover Rate	Stock Turnover Rate is the number of times during a given period the average stock is sold.

This formula produces the number of times during a given the average stock (inventory) is sold.

For example, a business whose profit-and-loss statement shows a cost of goods sold of $100,000 and an average inventory of $25,000 would have a turnover of four.

However, a higher turnover rate does not always mean greater profits. The turnover does not reflect the profits on sales that were lost because no inventory was available for sale. Your business may have a very high turnover on inventory, but if customers are going away dissatisfied because of poor selection or lack of availability of certain items, then your profits are not being maximized.

Having the ideal investment in inventory is always desired. For retail businesses, turning away sales because of understocking is more harmful than having markdowns on excessive inventory items. Tracking your sales records by item is crucial in preventing either costly condition. Obtaining the proper inventory balance requires an accurate anticipation of your customer needs, coupled with a realistic investment.

For manufacturing businesses, the costs of excessive inventory levels can be even more critical in limiting your developing a competitive operation. The costs of excessive inventory levels are associated with the following costs:

- Excess storage space devoted to raw material and work in progress inventory
- Excess handling costs associated with moving the materials in and out of the various temporary stock locations within the factory

- Inventory may be used as a "crutch" to avoid correcting equipment maintenance, floor layout, and production problems
- Obsolete or degraded inventory is often salvaged at very low value
- Excessive inventory is associated with quality control rejects from suppliers and work-in-progress problems

The concept of *Just-In-Time* (JIT) production has been developed to allow a much lower minimum level of inventory effectively reducing the above costs.

WHAT ARE THE FUNCTIONS OF INVENTORY CONTROL SYSTEMS?

There is a wide variety of inventory control systems, each of which supports four basic business functions in accounting and inventory management:

- Counting—Two types of inventory counting systems, perpetual and physical, are used by most businesses. These two systems are combined in many businesses, often with the support of computerized tracking and automatic input of inventory data via electronic cash registers and/or bar code scanners.
- Decision making—Decisions are about when and how much to order.
- Reporting—both "exception" and regular management reports are needed to allow the owner to take corrective actions or to refine inventory policies.
- Forecasting—Your record-keeping system can be used to forecast the demand for supplies.

A variety of specific control techniques have been developed to manage inventory successfully.

WHAT IS A PERPETUAL INVENTORY?

When continuing records are kept of receipt and withdrawal of inventory, the process is called "perpetual inventory." With this system, the business owner has a running tally on the current stock of an item. For each item, a record is kept as it is brought into the business, stocked, and sold. Records are maintained on perpetual inventory cards, pages, tags, or via electronic means. In retail operations, sales tickets, or point-of-sale cash register input are often used to maintain perpetual inventory information.

There are several different types of records for keeping perpetual inventory, and a variety of information can be maintained with these records. A sample perpetual inventory form is illustrated in Table 4.

You will find that typical inventory records may also include the item, the stock number, the reorder point, and the supplier. When additional inventory is received, the number is added to the balance. When items are issued for use or are sold, the withdrawal is subtracted from the balance. The amount of inventory on hand for a particular item can

Table 4
Sample Perpetual Inventory Card

Perpetual Inventory Card Item: _____				
Date	**Pur. Req. or Stock Req. No.**	**Put in Stock**	**Withdrawn**	**Balance**
03/03/9___	2525	1,000		1,000
03/10/9___	502		100	900
03/15/9___	1208	1,000		1,900
03/18/9___	503		1,000	900
03/20/9___	1720	1,000		1,900
03/22/9___	505		200	1,700
03/24/9___	507		300	1,400

be easily determined by looking at the balance on the record.

The development of electronic cash registers, as well as mini-computers have made maintaining perpetual inventory systems very easy for small businesses. At the end of the year, perpetual inventory records are added up and compared with the periodic physical inventory. Major differences may be investigated and perpetual inventory records are corrected.

A variety of "bin" systems can be adapted to your business that serve to integrate the decision-making rules regarding when and how much to buy with the basic counting operations. For example, in the "two-bin" system, you divide your storage locations into two portions or compartments. When the first location is depleted, the backup compartment is opened and an order is placed for the specified quantity of items. The quantity of items in the second compartment is designed to last for the "lead-time" that it takes to obtain more stock from the supplier.

WHAT IS A PHYSICAL INVENTORY?

Taking physical inventory consists of counting and listing the goods in stock with their cost and resale price. A company-wide physical inventory is usually taken once or twice a year, which covers the previous accounting period. From time to time, the business owner may also desire to take a physical inventory on a particular line of goods.

Even if a perpetual inventory system is maintained, these physical counts are required to check the accuracy of the unit balances on the individual record cards. With such information, mistakes or losses due to spoilage and theft, and whether or not a profit has been made, can then be determined. A sample inventory sheet is presented in Figure 6. This is the form normally used for the physical inventory.

more timely reports, valuable product and vendor analysis, lower inventories because of better sales trend forecasting, better turnover of goods because of better stock selection, and fewer clerical employees required for the reporting function. Current data regarding daily sales volume, inventory levels, sales ratio figures and even profit-and-loss statement reviews are available within hours. With technological advances,

Inventory Sheet

Dept. Name:_____ Dept. No._____

Fixture No. _____ Counted by:_____ Checked by:_____

Class No.	Description	Quan.	Unit	Price		Seal	Total Resale Value							
	Total													
											Sheet Total			

Figure 6. Sample inventory sheet

WHAT IS AN ELECTRONIC INVENTORY SYSTEM?

The costs involved in using electronic data processing can be justified by increased sales, reduced expenses, or by the provision of timely information necessary to implement your business plan. Businesses that have adopted electronic inventory control have pointed to many advantages, such as

more and more small businesses will have accurate and current information available in a short time period. The data entry burdens of inventory systems have been lessened a great deal by the advent of portable bar code readers that allow much greater accuracy and speed in identifying and counting receipt, movement, and verification of inventory stock.

WHAT ARE BUDGET SYSTEMS?

The most successful small business firms are those that—

- keep double-entry bookkeeping records,
- have their accounts audited or checked by an experienced accountant,
- take an inventory of merchandise more than once a year, and
- operate under a financial budget.

A budget is an estimated plan for the future. It helps the small business owner keep expenses in line with income. Use of a budget should prevent overbuying and help to anticipate when borrowing is necessary. Actual procedures vary according to the type of business. The business budget plan is made up of several different types of budgets, such as sales, merchandising, purchasing, advertising, and so forth. Most of the budgeted items are based on planned sales. They are developed for a given time period—usually 6 months. Many businesses use "electronic spreadsheets" to develop and track budget information.

WHAT IS A SALES BUDGET?

The sales budget is a forecast of the sales for a month, several months, or a year. Estimated sales may be computed on the basis of sales territories, salespeople, particular commodities or services, and other items. Sometimes independent estimates are made on all these bases and, after some compromises, a final sales budget is compiled. Sometimes sales estimates are prepared with the idea of developing sales quotas or goals for salespeople. These estimates provide a goal for sales, as well a basis for preparing the merchandising, purchasing, and other operating budgets.

The following factors may be used as a guide to budget sales:

- Previous sales
- Economic trends
- Weather conditions
- Shifting population
- Sales force
- Availability of merchandise
- Buying habits
- Season of the year

When starting a new business, it is advisable to investigate the experiences of other operators in the same line of business and secure what information can be obtained from wholesalers, manufacturers, and professional or trade association people.

WHAT ARE MERCHANDISING AND PURCHASING BUDGETS?

The merchandising and purchasing budgets are prepared after the sales budget, since they are closely correlated. When these budgets are developed, the kinds of stock to

have on hand and the time when they should be available are determined. Maximum and minimum supplies are established. Purchases are planned, cash needs are estimated, sources of supply are checked, delivery dates are scheduled and requisitions and orders are tentatively planned. Orders are sometimes placed in advance, subject to cancellation later; or, minimum orders are placed, subject to increase later.

Blanket purchase orders or open accounts may be developed with key vendors to reduce paperwork and increase the efficiency with which you can execute continuing orders. Using these types of budgets will help you develop positive relationships with your vendors.

WHAT IS THE ADVERTISING BUDGET?

The advertising budget is a plan of spending for advertising, based on estimated sales. Advertising should be kept within some reasonable bounds, for it is not true that sales will always be in direct proportion to advertising. You should check industry sources for the relative amounts spent on advertising within your industry and size category. With accurate records of sales and advertising over time you can begin to develop a good understanding of any actual relationship between the amount, type, and timing of your advertising expenditures on your sales. Because of the nature of the interrelationship between sales and advertising, these two budgets should be planned together.

ARE THERE OTHER RECORD-KEEPING NEEDS?

In addition to the record-keeping needs discussed to this point, most small business owners find it essential to keep other types of records. They may include legal documents, permits, licenses and certifications.

Types of legal records include the following:

- Application to the appropriate governmental entity registering your business name.
- Application for and copy of a federal employer identification number.
- Application for and copy of a sales tax identification number. This is necessary for businesses that are required by law to collect sales taxes or that purchase merchandise that is for resale and not subject to sales tax.
- Application for and copy of state Unemployment Insurance Number. This is necessary for businesses that pay compensation with the exception of emuneration of sole proprietors and partners.
- Application for and copy of Worker's Compensation Insurance Numbers for each risk category of worker.
- Application and copy of licenses required by federal, state, and local legislation.
- Leases on premises used for business purposes.

- Copies of partnership agreements and other agreements between the partners.
- Copy of corporate kit with stock certificates, seal and articles of incorporation.
- Copies of purchase agreements between suppliers and the business.
- Copies of contracts between the business and its clients, plus other contracts related to the business.
- A record of business assets containing purchase or title documents, warranty or guarantee statements, repair records, etc. These records should contain lists of property, serial numbers, and values for equipment used in the business.
- Insurance records containing different types of insurance policies, policy numbers, coverage, and premium due dates.
- Other employee compensation records (a file of the application form, W-2 withholdings statements, medical records, insurance forms, emergency phone numbers, etc.).
- Quality control documentation records.
- Customer records.
- Supplier records.
- A record of customer suggestions, complaints, and correspondence.
- Lists of clients, with addresses, phone numbers, and purchase history.
- Other documents applicable to the particular industry and locality.
- Lists of product specifications, blueprints, and bills of material for each product you produce.

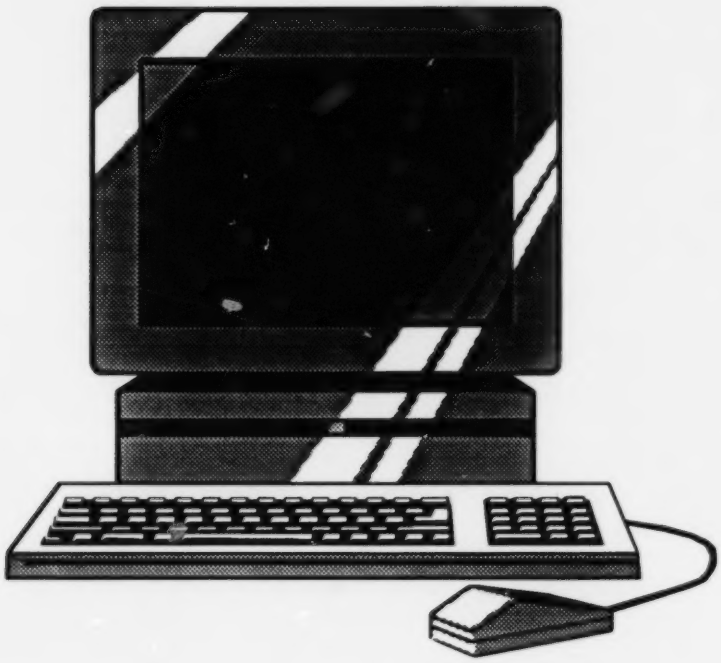
HOW ARE COMPUTERS USED IN SMALL BUSINESSES?

Computers are key management tools that allow you to integrate various record keeping systems into a "management information system." Just as your existing paper record-keeping systems are interrelated, your computer will link each key record into a clear picture of your business operations.

You will use a computer to increase sales, improve productivity, and to cut costs by assisting you in conducting the following general business functions:

- Automatically collecting and storing information about the business
- Making routine decisions in areas like reminders of project due dates, sending billing notices, mailing sales announcements to key customers, etc.
- Producing financial statements and management reports essential for profitable operations
- Meeting government reporting and documentation requirements
- Receiving and transmitting information to other businesses and your customers

If you choose to develop a fully integrated computer system, here are some of the specific computer applications that apply to a



particular business in addition to routine preparation of financial statements and management ratio analyses:

- Utilize market data in computerized form from private and public sources
- Target potential customers and implement sales plan
- Take customer order and assist your customer service workers to provide accurate information
- Take customer inquiry regarding shipment delays and help resolve customer complaints
- Evaluate customer credit
- Check inventory status
- Revise product design to customer specifications
- Provide an accurate product cost estimate and customer quote
- Order parts from suppliers via electronic transmission of parts specifications and drawings
- Manufacture product
- Chart and document product and process quality progress
- Check on the status of a customer project/product
- Prepare shipping documents and customer invoices

- Automatically send customer billing reminders

Any job requiring accuracy, speed, and/or repetitive processes with simple decision-making options, or keeping track of large volumes of information, should be considered for conversion to computer assisted operation.

Costs of computer hardware and application software to perform the above tasks in a small business are now remarkably low and can be justified easily by a cost/benefit comparison. However, these low acquisition costs tend to hide several very significant costs that need to be factored into your cost/benefit analysis:

- Staff training costs in the new systems and procedures.
- A period of reduced productivity as the conversion to any new system is made.
- The possibility that you will have to hire specialized personnel at higher salaries.
- Although a great deal of specialized application software is now available for many businesses, it is probable that you will need assistance in customizing and installing these programs to work exactly the way your procedures require.

An intangible factor to consider when computerizing your business is that the operations of your business will become dependent upon reliable operation of the overall system. This means that service problems with your hardware or software, as well as any failure by a key employee can effectively "shut you down" until they are resolved. You will want to spend a considerable amount of your time investigating the service reputation of the computer hardware and software vendors with who you will deal. In addition, you will not want to become dependent on a single employee that has sole knowledge of how to operate your system.

SHOULD I PROTECT MY RECORD-KEEPING SYSTEM FROM DAMAGE OR LOSS?

Every small business owner has the responsibility to maintain the security of essential business records. A fire causing the loss of your accounts receivable journals could destroy your ability to bring in cash from these accounts. These types of losses will generally not be covered by your insurance policies.

At the business site, you can utilize fireproof storage cabinets for critical records. Duplicate records should be stored off site for complete protection. Computer records should be protected on site by a policy specifying regular "back-ups." Copies of these backups should also be stored off site. It is not sufficient to have a policy calling for backup data, you must ensure that this policy is carried out to the letter.

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITY

1. Develop a list of resources on record keeping for use in your business. Include the Small Business Administration publications that you might obtain free of charge. Obtain those resources that will be of assistance to you.

2. Determine who will keep the records for your business.

3. Determine your need for an accountant. If you decide that you need an accountant, determine how you will select that accountant. Also, decide what services you desire to have the accountant perform.

4. Determine the nature of the information that you desire to have on your business on a daily, weekly, and monthly basis. Also, decide how you will obtain this information.

5. Determine the type of bookkeeping system that you will use: single-entry or double-entry.

6. Select your journals or books of original entry.

7. Select your ledgers or books of various accounts.

8. Determine the techniques you will use to track sales.

9. Develop a system to keep track of your accounts payable.

10. Develop a system to keep track of your accounts receivable.

11. Determine the nature of the payroll records that you will keep.

12. Develop a system for keeping a petty cash account.

13. Select your inventory control system. Select or develop cards or forms that you will need to record perpetual inventory (if utilized). Develop or select any forms that you will utilize to record physical inventories (if utilized).

14. Discuss electronic inventory control systems that might be utilized in your business with a cash register salesperson and a computer salesperson.

15. Develop an overall budget for your business. It should include sales, merchandising, purchasing, and advertising budgets.

16. Select any other records that you will keep for your business.

17. Talk with a computer salesperson about how microcomputers might be used in your business. Select any business applications that you will computerize. Also, determine the policies that will be required as you conduct the transition from manual to computer-assisted operations. How will these policies need to

be changed when you are fully converted?

18. Visit your local SBDC (Small Business Development Center) or SCORE (Service Corps of Retired Executives) office to determine the type of assistance they can provide you and your firm.

19. On a separate piece of paper, complete the following checklist regarding your records:

    - Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you?
    - Have you worked out a way to keep track of your inventory so that you will always have enough on hand for your customers, but not more than you can sell at the lowest possible financing cost?
    - Have you planned on how to keep your payroll records and take care of tax reports and payments?
    - Do you know what financial statements you should prepare?
    - Do you know how to use these financial statements?
    - Have you obtained standard operating ratios for your type of business that you plan to use as management guides?
    - Do you know an accountant who will help you with your records and financial statements?

20. If your business has been operating and you haven't done this previously, make an appointment to discuss the following information with your accountant:

    - How much business am I doing?
    - What are my expenses? Which expenses appear to be too high?
    - What is my gross profit margin? My net profit?
    - How much am I collecting on my charge business?
    - What is the condition of ny working capital?
    - How much cash do I have on hand and in the bank?
    - How much do I owe my suppliers?
    - What is my net worth; that is, what is the value of my ownership of the business?
    - What are the trends in my receipts, expenses, profits, and net Worth?
    - Is my financial position improving or growing worse?

- How do my assets compare with what I owe? What is the percentage of return on my investment?
- How many cents out of each sales dollar are net profit?
- What can we do to improve the business operation?
- Which of the above items should I be reviewing (and/or producing myself) on a more regular basis?

GROUP ACTIVITY

1. Attend one or more of the following seminars:
   - Selecting an Accountant for Your Small Business
   - Inventory Control and your Small Business
   - Analyzing Your Records to Reduce Costs
   - Free business computer applications seminars conducted by the computer hardware and software vendors. Select topics appropriate to your industry, e.g., Equipment Maintenance Management, Payroll Personnel Benefits, Sales Management, Manufacturing Solutions, or Selecting a Business Computer.
2. Select another person to work with in this activity. You should select a person whom you trust, because you will be discussing aspects of your business operation with this individual. Get a Student Record Checklist from your instructor. Use it as you discuss your record keeping with the other individual. The other individual will evaluate the information that you provide and give assistance on how you night improve your system.

   You may wish to share the records that you are using with the person with whom you are working. Are you using too many records? Are the records that you are using at their best or can they be improved? How can they he improved? Should you be keeping other records? You and your "partner" will have an opportunity to learn as you evaluate the record keeping process that each of you is using.

CASE STUDY

Bob and Mary are two college students who operate a seasonal lawn care service. They have been in business for two seasons and expect continued growth this spring. They are beginning to develop a significant client base and plan to hire additional employees as the business grows. Major investments in equipment are also needed to support the projected growth. Their concern is to be able to provide continued service to their "old" customers while building new customers. In the past they have also had problems with unpredictable expenses for supplies and equipment repairs.

You are their business teacher and they have informally asked you for advice on improving their business. As an instructor, you are very familiar with general business record-keeping systems but are not specifically familiar with the lawn care business. You will want to speak with several successful businesses of this type to gather information before advising your students.

DISCUSSION QUESTIONS

1. Is there a "record-keeping" solution for Bob and Ruth's need to continue to service existing customers?

2. Can you suggest ways that improved records can reduce and make expenses more predictable?

3. Are seasonal businesses prone to special record-keeping problems? What are they?

4. What records are especially important for a lawn care business?

5. Outline the process that will be involved in operating this firm's record-keeping system for one week during the summer. Indicate which employee will enter each type of record and what types of information will be recorded. Also diagram the connections between the various records that are kept.

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ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Describe double-entry bookkeeping.
2. Name the record-keeping devices that you will use in your business.
3. Several record-keeping needs are described below. Identify the nature of the record that will meet each need in a small business situation.

   - A system that will allow you to classify your sales transactions by department or merchandise line, salesperson, taxable versus nontaxable items, and cash versus charge sales.
   - These records are needed to document the cash taken in each day. They are a combination of a day's cash sales plus payment for prior sales (charges), deposits on future sales (lay-away or special orders), and any miscellaneous income.
   - For each customer to whom you extend credit you should keep a separate record on which you post charge and payment transaction, along with the date and a running balance due.
   - These records refer to each account that sells to you on credit.
   - These records show the weekly hours worked, gross pay, deductions for state and federal income taxes, FICA withholdings, and net pay to each employee.
   - Depending on the type of business, you will need a control system to keep track of your merchandise and equipment. Keep in mind that the cost of maintaining the system should not outweigh the potential for loss.
   - This record provides a monthly listing of deposits, checks cashed, and the remaining balance of your bank account. It should be compared with your records to detect errors or to record bank charges and to locate any "lost" or "misplaced" checks.
   - In most businesses, the owner will have occasional small disbursements that are simply paid in cash rather than by writing a check. This account is needed to cover these expenses.

4. A small business owner has several options with regard to who can keep the business records, as well as how they are maintained. Identify the option that you plan to use in your business and explain why you choose it.
5. List the record-keeping functions that might be performed using a microcomputer.
6. Identify the factors that you will use to evaluate your business records.

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PACE

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⇨	Unit 17.	Record Keeping
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Units on the above entrepreneurship topics are available at the following levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business